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JPRS 84310

13 September 1983

# China Report

ECONOMIC AFFAIRS

No. 381

DISTRIBUTION STATEMENT A

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PRINT QUALITY INSPECTED 3

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CONTENTS

PEOPLE'S REPUBLIC OF CHINA

ECONOMIC MANAGEMENT

Transregional Economic Zones, Multitrade Networks Discussed (Zhang Feng; SHIJIE JINGJI DAOBAO, 4 Jul 83) .....	1
Speedup of Commercial Reform Called For (Chai Sang; SHIJIE JINGJI DAOBAO, 4 Jul 83) .....	4
Enterprise Consolidation Lifts Industry Results (JINGJI RIBAO, 13 Aug 83) .....	6
Briefs Jiangxi Enterprise Streamlining	9

FINANCE AND BANKING

Circulating Funds Management System Discussed (Lin Anjun; ZHONGGUO JINRONG, No 7, 4 Jul 83) .....	10
Qinghai Regulations on Fair, Market Taxation (Qinghai Provincial Service, 22 Aug 83) .....	17
Forum Summarizes Ideas on Controlling Capital Construction (CAIZHENG, No 7, 8 Jul 83) .....	18

FOREIGN TRADE

Principle for Establishment of Joint Ventures Discussed (Wang Rongshan; SHIJIE JINGJI DAOBAO, 4 Jul 83) .....	24
--	----

GENERAL

Briefs		
Northwest Meeting Ends		27
HONG KONG MEDIA ON CHINA		
System of Price Subsidies Analyzed (Li Kehua; WEN WEI PO, various dates) .....	28	
Positive Attitude Toward Foreign Capital Use Urged (Editorial; WEN WEI PO, 17 May 83) .....	37	
Utilization of Foreign Capital in Zhejiang Province Reported (WEN WEI PO, 10 May 83) .....	39	
Utilization of Foreign Capital in Fujian To Expand (WEN WEI PO, 6 Jul 83) .....	41	
Prospects of China's Coordinated, Economic Regions Discussed (Editorial; WEN WEI PO, 12 Jul 83) .....	43	
Reform of Supply, Marketing Cooperatives Yields Results (Zhou Wenqiang; WEN WEI PO, 8 Jul 83) .....	45	

ECONOMIC MANAGEMENT

TRANSREGIONAL ECONOMIC ZONES, MULTITRADE NETWORKS DISCUSSED

Shanghai SHIJIE JINGJI DAOBAO in Chinese 4 July 83 p 1, 3

[Article by Reporter Zhang Feng [1728 7364]: "Gradually Form Multitrade, Transregional Economic Zones and Networks--A Great Exploration to Create a Chinese Style Socialist Economic System--The Shanghai Economic Zone, Shanxi Energy Base and Chongqing Central City PIlot Programs Are Drafting Regulations and Reform Programs, The Zhu Jiang Delta, Min Jiang Delta, Jintian, Dongbei and Wuhan Special Economic Zones Are Also Actively Brewing Plans"]

[Text] Organizing production and circulation around central cities, coordinating every rule and regulation and forming multitrade, trans-regional economic zones and economic networks is an extremely important aspect of the reform of our nation's economic system. Even though it is now only in the planning and pilot-program stage, it is having a tremendous influence. Those in the field of economic study feel that this reform is a tremendous breakthrough compared to the original system; is a correct handling of the contradictions between rules and regulations which have existed for a long time and have never been satisfactorily solved; making an attempt at a reasonable division of labor between government and enterprises, and also is a probe into handling matters in accordance with objective economic laws and creating a Chinese style socialist management system.

At present, those that have received State Council permission to carry out planning and pilot programs include the transprovincial and municipality Shanghai Special Economic Zone, the Shanxi energy and heavy chemical industrial base with jointly develop coal energy and the Chongqing Central City full-scale pilot-construction program.

The Shanghai Special Economic Zone is centered on Shanghai, the nation's largest city, and includes 10 cities and 57 counties of the Yangtze River delta, namely Shanghai's 1 city and 10 counties, the 4 cities of Suzhou, Wuxi, Changzhou and Nantong and 18 counties of Jiangsu Province and the 5 cities of Hangzhou, Jiaxing, Huzhou, Shaoxing and Ningpo and 29 counties of Zhejiang. This is the nation's richest area of wealth, the region with the most developed economy, technology, culture and education and where trade relations with the outside are fully concentrated. Selecting this region which occupies a decisive position in our

nation's four modernizations construction to be a pilot program, clearly stipulating that Shanghai would be the center, fully fostering the role of Shanghai as a central city and using economic integration to foster the collective superiority of the Yangtze River delta, was a decision of strategic significance.

The Shanxi energy base is centered on Shanxi and includes the involved areas of Huaigeer in Nei Menggu, northern Shanxi and western Honan.

This is the home of our nation's coal, with only known reserves in Shanxi Province accounting for one-third of those of our nation; its development prospect is to be built gradually into an energy and heavy chemical industry base. Energy is a link on which we must concentrate our efforts and achieve a breakthrough in terms of our present economic construction, and the construction in the Shanxi energy base similarly is of strategic significance.

Chongqing originally was a city within the administrative jurisdiction of the province. In order to foster fully the role of this central city, the State Council has already granted it provincial level authority to manage the economy, with industry, commerce and capital construction all going directly into the state plan. The scope of Chongqing's jurisdiction has already been expanded to include 12 counties, covering an area of 23,000 km<sup>2</sup>, with a population of 13.8 million. At present, Chongqing is in the midst of drawing up various regulations nad plans for construction and reforms. The development prospect is to lead the development of every province in the southwest, becoming the economic and cultural center of the great Southwest. Because of this, the pilot program of the overall construction of the central city of Chongqing is a valuable learning experience for Huazheng, Zibei, Dongbei and other areas.

The Zhu Jiang Delta Special Economic Zone, the Min Jiang Delta Special Economic Zone, Wuhan Central City, the Jingjin Special Economic Zone and the Dongbei Special Economic Zone are also in the midst of ferment, discussion and planning. At present, this aspect of reform is undergoing planned development. The overall trend is: first, begin with the large and medium coastal cities, interior pilot-program cities and certain new key construction bases, and appropriately put the economically undeveloped areas where conditions are not yet ripe on the back burner.

Forming economic zones and economic networks with cities at the center is entirely new and very complex work. Its objective is to organize production and circulation in accordance with the demands of expanded social production, developing a united socialist market. It is intended to break down the separation between areas, between departments and between cities, carrying out enterprise reorganization and integration in accordance with the principle of specializing cooperation and improving economic results while eliminating various barriers and obstacles, opening numerous channels of circulation and achieving a free flow of goods. In terms of Shanghai, Shanxi and Chongqing, although there are

many actual problems and problems of awareness which require suitable solution one by one, development has generally been very good. Concerned persons have pointed out that through this reform we hope to embark on the road to a new economic system and, even if we occasionally feel that progress is difficult, the direction is correct--this road is one of strong vitality. They believe that practical efforts of many dedicated persons, both resolute of attitude and cautious in work, continually probing from pilot programs and accumulating experience, will result in the appearance throughout the nation of numerous economic zones and networks centered on cities, large and small, being integrated into a single system, forming a new economic system suited to the national conditions of our nation, greatly speeding the pace of the four modernizations construction.

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CSO: 4006/706

ECONOMIC MANAGEMENT

SPEEDUP OF COMMERCIAL REFORM CALLED FOR

Shanghai SHIJIE JINGJI DAOBAO in Chinese 4 July 83 p 3

[Article by Special Reporter Chai Sang [2693 2718]: "The Pace of Commercial Reform Can Be Quickened--Deng Hanquang, the Manager of the Guangzhon Nanfang Daxia Department Store Believes It--It Is not Sufficient to Limit Reforms to Collective Units and Medium and Small Commercial Shops with Few Workers and Limited Funds, The Pace of Reform of Large State-Run Commercial Enterprises Can Be Totally Speeded Up"]

[Text] Recently, while telling reporters his ideas on commercial reform, Deng Hanguang [6772 3352 0342], secretary of the standing committee and manager of the Guangzhon Nanfang Daxia Department Store, said that based on the clear results achieved in carrying out reforms at the Nanfang Daxia Department Store, the pace of all commercial reforms can be speeded up a bit. He feels that present reform of the commercial system which is limited to collective units and medium and small shops with few workers and limited funds is not enough and that the pace of reform of large state-run commercial enterprises can be totally speeded up.

Deng Hanguang feels that, in terms of a single enterprise, the success or failure of reform lies in the correctness of the management.

Under the new conditions of intense market competition, if management is not proper, then the enterprise will not even earn enough to sustain itself. We should realize that this is risky. He fully agrees with the idea that Zhao Ziyang expressed in his report on the work of the government delivered at the Sixth People's Congress about reform not being a matter of dispersing authority, but rather signifying that the responsibility of enterprise leaders is great and heavier.

The Nanfang Daxia Department Stores was originally ranked ninth in terms of economic results out of the 10 large department stores in the nation. Since the start of reforms at the end of 1979, it has already jumped to first position in terms of volume of business, profit rate and profit growth. The volume of business from January to May of this year has equalled twice that of the entire year of 1978, with profits up more than 2.7-fold. The varieties of goods managed has gone from 17,000 last year to 26,000 and the surface area under management has expanded from 6,000 m<sup>2</sup> to 11,000 m<sup>2</sup>. In the past not 1 m<sup>2</sup> of worker dormitory had been created, but in the past few years 13,500 m<sup>2</sup> have been created and 312 worker households have moved into new housing.

Deng Hanguang told us of the series of reforms that the store had carried out:

1. Authority over personnel was handed down to the lowest level. The store has the authority to transfer, hire and fire its enterprise cadres, has the right to discipline workers who violate labor discipline, who slight their duties or are lax in their work, and can dismiss workers in severe cases. In the personnel management system, this is a thorough smashing of the "iron rice bowl."
2. The former financial system of unified revenue and expenditure, and everything distributed by the state was changed, and the switch from turning over profits to paying taxes, with after-tax wages, and the enterprise responsible for profit and loss was carried out. A method of apportioning store profits was adopted, 63 percent being handed over to the state and 27 percent being retained by the enterprise. Of the portion retained by the enterprise, 70 percent went to an energy tax and was handed over to the municipal Commercial Enterprise Bureau, 10 percent went to worker wages and 20 percent was used in expanded reproduction, collective welfare and worker bonuses, with a respective distribution to these last 3 items of 40 percent, 30 percent and 30 percent. This is a correct handling of the relationships between the state, the collective and the individual, guaranteeing that the state receives the large share, the enterprise a medium share and the individual workers the small share--mobilizing the enthusiasm of the broad masses of workers.
3. Management authority was handed down to the lowest level, mainly placing stocking authority in the store's hands. In the past, goods acceptance relied on wholesalers, the store having no right to question whether or not goods would sell, becoming the fittingly named "sitting business" (sitting and waiting for the wholesaler to distribute goods) and "official business" (sitting and waiting for customers to come in). Before reforms, they only accepted small products from 18 factories, but now goods are accepted from factories throughout the nation, numbering more than 500. The store has autonomous management authority.
4. Commodity pricing authority was handed down to the lowest levels. Under the premise of carrying forward the state's unified brand pricing, the store can adjust the prices of goods suffering sluggish sales, reduce product overstocking and speed up the turnover of funds.
5. Planning authoirty was handed down to the lowest levels. Switching from turning over profits to paying taxes changed the unreasonable phenomenon of "whipping the fast ox" of the past and mobilized enterprise and worker enthusiasm.

Deng Hanguang reached this conclusion from his experience: reform has broken the iron rice bowl and replaced it with a golden rice bowl. Of course, we must rely on managing well--although there are risks, matters are in the hands of man. In order to speed up the accumulation of construction funds, vitalize urban and rural markets and meet the needs of consumers, commercial enterprise reform is not only necessary, but the pace of reform can be quickened.

ECONOMIC MANAGEMENT

ENTERPRISE CONSOLIDATION LIFTS INDUSTRY RESULTS

HK230343 Beijing JINGJI RIBAO in Chinese 13 Aug 83 pp 1, 2

[Report: "Jilin Province Scores Remarkable Achievements in Enterprise Consolidation Through 'foolish efforts'--Provincial Governor Zhao Xiu Answers Questions Raised by JINGJI RIBAO Reporter on Enterprise Consolidation"]

[Text] Jilin's industrial production in the first half of this year shows a more favorable situation than has occurred in the last 10 years or so. According to statistics, the total output value of industry shows an increase of 15.2 percent over the corresponding period of last year. After the gains and losses of the enterprises included in the budget are balanced, there is an increase of 52.5 percent in the net profits gained and an increase of 20.4 percent in the profits turned over to the state compared with the same period of 1982. Consequently, the amount of losses has dropped from 41.3 percent in early 1983 to 28.1 percent. The high speed and extent of recovery of losses in Jilin Province ranks first in the whole country. Our reporter had an interview with Governor Zhao Xiu. The following are his answers to the questions raised by our reporter:

Question: Why is it that Jilin Province was able to achieve marked progress in industrial production in the first half of this year after 10 years' sustained stagnation?

Answer: Jilin Province developed industrial production at a relatively fast speed in the first half of 1983 and the economic results achieved are remarkable. This is because we have implemented the principle of readjustment, restructuring, consolidation, and improvement put forward by the central authorities, and paid attention to enterprise consolidation in line with the actual situation in our province. There is a substantial number of enterprises in our province that have superior equipment and a relatively capable technical force. The supply of natural resources is also abundant. However, for a long time past, the economic results in our enterprises were far from good. The most practical and effective way of changing this state of affairs was to improve the quality of existing enterprises and strive to attain better economic results. Starting from 1982, we vigorously conducted enterprise consolidation in groups and by stages in a planned manner, with stress on key enterprises. Up to the first half of this year, more than half of the 1,200-odd

enterprises included in the provincial budget have basically passed the inspection test. These enterprises played a decisive role in developing the industrial production of the whole province in the first half of this year.

Question: Why has Jilin Province achieved remarkable results in enterprise consolidation?

Answer: First of all, the leading comrades at all levels ideologically attached importance to the work, had great determination, worked in a down-to-earth manner, and made "foolish efforts." ["ben gone fu" 4570 0501 1133] We held a provincial conference on industry and communications in May last year. At the conference, all the participants held that the reasons for the poor economic results in Jilin industry were: Enterprise leadership was incompetent, enterprise operation and management was not properly handled, and basic work was a weak link. As a result, the role of superior equipment in many enterprises was not given full play and could not produce high quality products even with fine raw materials. Furthermore, the products were unmarketable, few in variety, expensive, and poor quality, which caused serious waste. Therefore, the leading cadres at all levels felt that it was imperative to vigorously conduct enterprise consolidation. The chief leaders of the provincial, prefectural, and county levels personally took a hand in the work and concerned personnel were transferred to strengthen the ranks of "enterprise consolidation offices" set up at various levels. In addition, special groups were also established to guide consolidation work. The industrial and communications departments and their affiliated organizations directly under the provincial authorities released some 4,000 cadres to go deep into the enterprises to conduct investigation and help them in their consolidation work. The responsibility system for enterprise consolidation work and a regular meeting system that is, a meeting held every month in the province, were also set up. All these measures energetically promoted the progress of enterprise consolidation work. In the course of consolidation, we had a firm grasp on the key link of attaining better economic results, paid close attention to practical results, and refrained from just going through the motions. We also tried to change aspects of the enterprises one by one after consolidation, leaving no single enterprise unchanged in due course. Last year, we emphatically conducted consolidation work in the "two great units," namely, those enterprises that made large profits and those that incurred huge losses. After the consolidation, remarkable economic results were achieved, which played an important role in promoting the rise in industrial production this year. As for those enterprises that incurred huge losses, we adopted certain measures such as prescribing a time limit for them to make up the deficits and limiting the production of certain products. Those enterprises that incurred huge losses and could not bring about any results even after transformation, and had no conditions for manufacturing other products, were readjusted and resolutely closed down. In this way, we not only solved the problem of these enterprises cutting down half of the profits of the whole province, but also effectively saved energy resources and raw materials, thus ensuring the production needs of enterprises.

While carrying out enterprise consolidation, we also conducted reorganization on the three main respects, namely, leading bodies, economic responsibility system, and basic work, which energetically improved the quality of enterprises and strengthened the capabilities of the enterprises in handling emergency matters.

We also carried out readjustment and technical transformation in industry integrated with enterprise consolidation, which preliminarily solved the problem of irrational distribution in industrial structure and played a role in bringing about better economic results.

Question: What other work will be brought to your attention in the latter half of this year?

Answer: There are signs of improvement in the industrial production of our province in the first half of this year. However, this is only a beginning. We still need to conduct a great deal of work to reverse fundamentally the backward state of the financial situation of merely relying on subsidies. We will continue to attach prime importance to enterprise consolidation work. We must be determined, have a firm grasp of consolidation work in a down-to-earth manner, and strive to make 70 percent of the enterprises included in the budget pass the consolidation inspection test by the end of the year. We will further strengthen technical transformation work in enterprises and strive to attain better economic results by relying on advanced science. This work will, however, be based on enterprise consolidation.

CSO: 4006/782

ECONOMIC MANAGEMENT

BRIEFS

JIANGXI ENTERPRISE STREAMLINING--By the end of June, 203 enterprises throughout the province had been verified to have completed reorganization. Of this number, 127 met the requirements set for enterprise reorganization. The streamlining of enterprises has boosted the development of industrial and communications production and raised enterprises' economic results. Compared with the same period last year, the output value of 14 reorganized large and medium-sized enterprises in the first 6 months of this year rose 3.45 percent. Despite natural calamities and the shortage of energy, Jiangxi's industrial production in the first half of this year was quite successful, because 49.2 percent of the annual industrial output value plan was fulfilled. [Summary] [Nanchang Jiangxi Provincial Service in Mandarin 1100 GMT 10 Aug 83 OW]

CSO: 4006/782

## FINANCE AND BANKING

### CIRCULATING FUNDS MANAGEMENT SYSTEM DISCUSSED

Beijing ZHONGGUO JINRONG [CHINA'S BANKING] in Chinese No 7, 4 Jul 83 pp 5-8

[Article by Lin Anjun [0491 1344 6874]: "A Probing Discussion of the Reform of the Circulating Funds Management System"]

[Text] Circulating funds are an element that social production cannot do without. Managing circulating funds is not only an important component of enterprise management, it is an important integral part of the management system of the national economy. In order to meet the needs of the four modernizations construction, each item of reform should be coordinated and effectively carried out. Promptly reforming the circulating funds management system has become a necessary demand for developing the situation.

#### The Necessity For Reform of the Circulating Funds Management System

Our nation's circulating funds management system was set up in the mid-fifties in accord with the demands of the highly centralized economic management system which held administrative management to be primary. Its basic method is: finance departments and major management departments of the enterprise establish norms for the circulating funds plan, with finance departments providing without charge for circulating fund needs that fall within the norm limit and banks issuing interest earning loans to cover temporary or seasonal needs which exceed the norms. Funds were to be provided in accordance with merchandise stocking plans for first- and second-level enterprise stations, while a quota management system would also be carried out for third-level wholesale and retail enterprises. The greatest portion of circulating funds for commercial enterprises are to come from bank loans. Over the last 30 years, even though this sort of circulating funds supply and management system has seen certain changes in various concrete methods, it has never broken from the fund supply system which relied on the directivelike commodities production plan and product circulation plan and which was based on the established circulating funds plan quotas. That this management system was in need of reform is primarily due to the existence within it of the following problems:

1. It did not give due importance to the role of funds in organizing and managing the national economy and was of no help in raising the level of economic management.

In accordance with the demands of a highly centralized economic management system, industrial enterprises can only carry out production in accordance with the national plan, with the needed raw materials being uniformly allocated by the state and the products produced all purchased, packaged and marketed by commercial enterprises. Under this condition, the form of the value of currency and funds can only serve as accounting tools and measuring chips. A circulating funds management system which is mutually suited to this situation can only operate a supply system which supplies money in accord with commodity production and transfer and allocation plans. Practice has proven that in the organization and management of the national economy this type of unitary planning adjustment which only pays attention to using the form of the value and does not pay attention to the form of universal value is not suited to the level of development of the productive forces of our nation at the present stage. Its use will only result in the divorcing of commodities and funds, covering up the contradictions in production circulation and weakening the planned management of the national economy. For several years now, we have carried out relatively large reforms of the management system of the national economy carrying out the correct principle of the planned economy being primary and market adjustment being supplementary, and we have adopted numerous measures to stimulate production and circulation. Enterprises are gradually becoming relatively independent economic entities. Because of this, the old methods of funds supply and management have lost their basic reasons for being. If we did not promptly reform them, then we could not meet the needs of the reforms of the economic management system, and this would not be helpful in hastening enterprise production development and stimulating the national economy.

2. It did not acknowledge that enterprises are relatively independent economic entities and was of no help in mobilizing enterprise enthusiasm.

Under a highly centralized economic management system, an enterprise is only a single, simple subsidiary of a production department and an administrative management agency. In financial management, the state carries out a system of unified revenue and expenditure--"eating from a large pot"--toward enterprises, and enterprises have no relatively independent economic authority or interest. Therefore, in circulating funds management, we correspondingly carry out a norm management system which only attends to supervising enterprise use of the funds. Old fund management methods in particular directly correlated the established norms and standards for the state supplying enterprise funds. If the enterprise could achieve a higher norm or total quota, then regardless of how effectively it used them, it could obtain more free funding and low-interest loans from the state. This was not helpful in mobilizing enterprise enthusiasm and self-motivation.

3. Multiheaded management, separation of responsibility and authority, economic levers such as credit and interest rates cannot fully fulfill their functions.

According to the old funds management system, the planning departments handed production plans down to the enterprises, the financial departments established circulating funds norms for enterprises, major departments of the enterprise handed down fund targets, and banks used loans to handle the seasonal and temporary funding needs that occurred in the course of production turnaround.

Looking at the surface, it appears quite tight, each area assigned its own labor, but in actual life things are always separated, with serious wrangling--no one department can take responsibility and authority for the unified management of circulating funds from the planning through the actual utilization stage. When an enterprise finds itself short of funds, whether it is a frequent need or a temporary need, the only practical method is to rely on bank loans. This creates a circulating funds supply system which has bank credit as backing.

#### The Principle of Reform of the Circulating Funds Management System

The aforementioned problems of the existing circulating funds management system makes it clear that its harmful element is that under the ideological impact of a product economy it failed to attach importance to the role of funds in the organization and management of the economy, failed to admit that an enterprise is a relatively independent economic entity and as a result formed into a funds supply system taking administrative management as its primary element. Because of this, reforming the circulating funds management system requires getting a firm grasp on the crucial element of the funds supply system, realistically establishing the position of circulating funds management within the management of the national economy, mobilizing enterprise enthusiasm, and developing the roles of credit and interest rates as economic levers, in order to achieve the goal of improving economic results. In order to do this, I feel that when studying reform of the circulating funds management system we must uphold the following basic ideas:

1. Reforms must adhere to the direction of the reforms of the economic system and be helpful in mobilizing enterprise enthusiasm.

For an enterprise to be an actual relatively independent economic entity, it must have specific fixed funds and circulating funds that it can supply itself. Only in this way can it guarantee that the enterprise has a definite self-standing capability in terms of funds. At present, some comrades advocate switching all state-provided circulating funds to a bank credit fund, to be loaned to the enterprise at a rate of interest. This method causes the enterprise to lose totally its ability to stand on its own in terms of circulating funds. And this clearly is not helpful in mobilizing enterprise management enthusiasm.

In terms of actual conditions, state-supplied circulating funds are already a small proportion of all circulating funds and are already at a level which cannot be reduced. If we switched this portion of funds to a bank credit fund, banks could not possibly turn it all over and utilize it, so it would have no meaning as credit funds; if it were turned into loans, enterprises could not possibly return it, nor would it be possible to induce enterprises to reduce their use of this portion of funds because of the interest they would have to pay. At the same time, after the state-supplied circulating funds that enterprises now hold are retrieved, asking enterprises to use a portion of their retained profits and, starting from zero, accumulate their own circulating funds is not very practical. According to present retention levels, even if an enterprise used 30 percent of its retained profits to supplement its circulating funds each year it would take 50 years to bring the amount of funds to 50 percent of the total amount of regular circulating funds in 1982. We can see from

this that making such requests can only impact on the enthusiasm of enterprises to supplement their own circulating funds.

2. Reforms must accord with the demands of improving socioeconomic results and be helpful in realizing an excellent cyclical turnover of the national economy.

Correctly handling the various proportional relationships in economic life is a premise of hastening stable economic development and truly guaranteeing continued improvement in socioeconomic results. In the course of economic development, there exists a specific objective proportional requirement between fixed funds and circulating funds. For a substantial period of time, our nation failed to heed this proportional relationship in a financial arrangements, generally holding that there was some elasticity in circulating funds needs and blindly expanding investment in fixed assets. This led to the serious result of "capital construction squeezing finances, finances squeezing the banks, and banks issuing bank notes."

Currently, financial system reforms have, in the distribution link, initially changed the system of "eating from the big pot," but in circulating funds management there is still a supply system of central unified accounts. Under this condition in which funds going in and profits being distributed are not part of a complete set, in order to increase profits, localities and enterprises use every possible means to increase investment in fixed assets and do not consider circulating funds which must be correspondingly increased if the scale of production is to be expanded, with the result that the scale of investment in fixed assets is difficult to control, further intensifying the imbalance in the proportion of fixed funds to circulating funds. If we do not promptly change the circulating funds supply system, it will inevitably affect the comprehensive balance of the national economy.

Some comrades now advocate that in the future circulating funds needed by enterprises not be supplied by financial departments but rather be uniformly supplied by banks in the form of loans, and even that funds for laying the foundation for newly building or expanding enterprises come from bank loans. If we adapt this method, it actually amounts to changing the former superficial supply system where two establishments were responsible into a one-establishment total-responsibility supply system. This would lead to the funds both inside and outside the fiscal budget being used mostly for fixed assets investment, and the amount of circulating funds needed would increase alarmingly. At that point, banks would be unable to handle the task of unified supply, and even if currency were issued to force through the handling of the task, it would not be helpful in maintaining a reasonable ratio between investment of fixed funds and circulating funds in state financial planning.

Other comrades feel that fund channels for financial credit have already undergone a change, with a reduction in financially distributed funds and an increase in funds distributed by banks and that banks should support financial administration by taking over the task of unified supplying of circulating funds. The key here does not lie in the amount of money, but rather in how we make reasonable arrangements according to the different natures of the two kinds of funds.

Fixed funds and circulating funds are both supplementary funds and accumulated funds which society needs for reproduction, regardless of whether it be simple reproduction or expanded reproduction, and both require deduction from the national income, and in distribution, increases in the two should correspond to objective proportional demands. In state financial arrangements, guaranteeing the need for a suitable amount of increase in circulating funds is, in essence, a matter of restricting the consumption of various material goods in the light of currency outlays. We can proceed in an orderly manner in accordance with the notion "first present production, then capital construction," surely guaranteeing that the scale of construction can be strictly kept within the bounds of that permitted by national capability, and avoid once again experiencing the phenomenon of capital construction squeezing present production and people's consumption.

3. We must bring about the characteristics of using economic methods to manage the economy, helping to foster the leverage function of credit and interest rates.

Proper management and use of circulating funds not only requires scientific administrative management, but requires using economic methods to manage, better utilizing the leverage of credit and interest rates. This first requires turning enterprises into relatively independent economic entities possessing a basic capability to stand on their own in terms of circulating funds. Only in this way can banks possibly truly carry out the credit principle of "distinguishing treatment and selecting the best to support," effectively fostering the leverage function of credit and interest rates. If banks both shoulder the responsibility for the task of unified supply and also want to use economic methods to spur on enterprises, mixing the two functions together, then the role of economic levers cannot be effectively developed.

#### Regarding the Suggestion of Having Banks Unify Supply and Manage Circulating Funds

Based on our understanding above, I offer the following ideas concerning the reform of the circulating funds supply and management system:

1. Establish a reasonable circulating funds supply and management system.

The circulating funds of new or expanded enterprises must be handled as investments. Whoever newly builds or expands an enterprise should supply the needed investment for fixed funds, and circulating funds required can be determined according to the proportion of trade or enterprise circulating funds to fixed funds. There is no need to use the former method of checking funds that involved trivial and detailed red tape.

With the exception of cutting out the fat and making appropriate adjustments in limited areas, the state-supplied circulating funds that old enterprises are now using should in principle be retained and continue to be used by the enterprises, being an investment in the enterprises by the state. In the future, enterprises which increase production and need to increase their circulating funds should primarily supplement them out of their own retained profits. The

state must establish laws clarifying the smallest proportions by which enterprises must use their retained profits to supplement their circulating funds according to regulations and so lack frequently needed funds can also be issued relatively long-term, high-interest loans by banks. The state can collect a specific usage fee for the state-supplied circulating funds that enterprises use. The circulating funds put up by enterprises themselves as supplements can be enterprise funds which the state does not transfer, regulate or collect any charge on, which will encourage enterprise initiative in accumulating its own funds.

In regard to enterprises cutting prices and reporting waste and damage in the course of production management, such things should be taken care of out of the enterprise's reserve fund and the year's profits--they must not reach into state-supplied circulating funds or secure bank loans. This will spur enterprises to pay more attention to their own microcosmic decisions and to more flexibly carry out production management.

Bank loans only solve the temporary reasonable needs created in the course of production turnaround by an insufficiency of state-supplied circulating funds and the enterprise's own funds. In holding loans, banks have the authority, in accordance with state plan policies and the economic effects of enterprise production management, to operate on the credit principle of "distinguishing treatment, and selecting the best to support," determining for themselves whether or not to lend, how much to lend, the length of the loan period and the rate of interest.

## 2. Clearly unify the major departments managing circulating funds.

In order to change the present situation of multiheaded management, with authority and responsibility being out of line and serious wrangling resulting, the state should pass legislation to determine clearly one department to carry out unified management of circulating funds. Because there is an extremely loose relationship between the amount of an enterprises circulating funds and their speed of turnover, on the one hand, and bank credit funds, on the other, there is no doubt that the most ideal means for the state to use to manage circulating funds is bank credit and that the task of unified management of circulating funds should fall to the People's Bank. The People's Bank, in accordance with the administrative authority bestowed on it by the state, must uniformly establish circulating funds management policies, systems and plans, be responsible for approving the circulating funds plans for each department and each unit, inspect the situation with regard to how funds are used and do well in overall coordination work. This requires forming the People's Bank into a genuine central bank, no longer directly carrying out credit work. If we do not separate the issuing of currency and credit, and intermix the two functions of administrative management and economic actions, it will be difficult to complete the task of unifying management.

## 3. Circulating funds targets must be put into the state economic system, fully fostering the role of circulating funds management in regulating and organizing the national economy.

The rate of turnover and the volume of circulating funds is a comprehensive reflection of the movement in the national economy. Solidly strengthening circulating funds management can also, conversely, spur the regular advance of production circulation. Use value and value cannot be separated, and this has an important role in deciding circulating funds management in national economic management. Especially under the condition where present profit targets cannot fully reflect enterprise management achievements, suitably strengthening circulating funds targets has especially important significance for correctly handling the relationship between initiative and balance and for placing the initiative mobilized by reform of the allocation link on the correct track. The state has already placed circulating funds targets into a pattern of regular announcements, but in actual operations, the target's effects--good or bad--have very little relation to the locality's or enterprise's economic interests, and circulating funds management continues to occupy an extremely weak position. Through reforms, we should clearly stipulate the role that should be played by completing circulating funds targets in determining local and enterprise monetary retention and the total amount of worker bonuses, seeing to it that they truly become rigid targets that have a relation to every aspect of economic interest.

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CSO: 4006/716

FINANCE AND BANKING

QINGHAI REGULATIONS ON FAIR, MARKET TAXATION

HK231022

Xining Qinghai Provincial Service in Mandarin 1100 GMT 22 Aug 83

[Text] The provincial people's government recently promulgated provisional regulations on the administration of taxes at trade fairs and markets.

The regulations provide that in accordance with the state law of taxes, industrial and commercial taxes must be levied on all income earned from businesses at urban and rural fairs and markets and industrial and commercial income taxes must be levied on profits earned. Livestock transaction taxes must be levied on the purchase and sales of livestock. Livestock butchery taxes must be imposed on livestock butchers.

The regulations also provide for strengthening taxation procedures regarding transient peddlers who carry taxable products from far places and sell them at fairs and markets. Regarding [words indistinct] unlicensed peddlers, they can pay an advance deposit. More taxes must be imposed on those who deceive their own trade, instigate a shopkeepers' strike for their own benefit, drive up prices, engage in speculation and profiteering, and reap relatively big profits.

Regarding taxable agricultural and sideline products which peasants produce themselves and sell, and regarding small transactions, any sales above 20 yuan is taxable and any sales below 20 yuan is exempt from taxation. Firewood, grass, poultry, eggs, vegetables, melons, fruits, and potatoes which peasants produce themselves and sell are temporarily exempt from taxes when proof is made that these products were self-grown and sold. Only industrial and commercial taxes are imposed but no butchery taxes are imposed on commune members who hold certificates issued by a township people's government or a villagers' committee and who sell pork, beef, and mutton at fairs and markets.

CSO: 4006/782

## FINANCE AND BANKING

### FORUM SUMMARIZES IDEAS ON CONTROLLING CAPITAL CONSTRUCTION

Beijing CAIZHENG [FINANCE] in Chinese No 7, 8 July 83 pp 6-8

[Article: "Control the Scale of Capital Construction, Guarantee Key Construction--Major Ideas of the Sixth National Finance Theory Forum"]

[Text] At the 1983 conference on the Chinese Financial Institute and the Sixth National Finance Theory Forum, representatives in attendance closely related last year's financial and economic situation to their discussions, which focused on matters such as how to control the scale of capital construction and guarantee key construction and how to reform financial and tax systems. Comrade Chen Rulong [7115 7172 7893] summarized the discussions of these matters at the meetings in remarks made at the close of the meeting. The following are the main points of his remarks:

#### I. Concerning the Matter of Controlling the Scale of Capital Construction and Seeing that It Is in Accord with National Capabilities

In the discussions, everyone unanimously agreed that the directive on economic construction indicating that the scale of capital construction should accord with national capabilities and the theory and method of balancing the big three--policy, credit and commodities--to restrict the scale of construction, seeing to it that the scale is in accord with national capabilities, which were raised by Comrade Chen Yun [7115 0061] are completely correct. The positive and the negative experiences of our nation in the last 30 years have both proven that when the scale of construction is in accord with national capabilities, then the national economy develops smoothly, economic results are better and the political situation is more stable; conversely, when the scale of construction jumps, exceeding national capabilities, it leads to serious proportional imbalances and economic development is slow, and even stagnates and regresses. These comrades said that since the founding of the nation, construction has seen four great jumps. The jumps in 1958 and 1970 both brought on overall strains in economic life. Although the jump in 1978 was discovered and corrected relatively quickly, it still created strains in certain areas. In each case, we had to make adjustments, cutting out certain construction projects and doing serious economic damage. But not all comrades have learned these painful historical lessons. Many comrades pointed out that the 1982 runaway construction occurred under new conditions, differing in certain ways from the occurrences in the past:

1. In the past, the instances were mainly excessive jumps in budgeted investments and the primary policies adopted were to cut the capital construction investment in the budget; this time it has been a case brought on by extrabudgetary investment and exorbitant increases in bank credit in a situation in which budgeted investments were held down. This cannot be solved by cutting the budgeted investment, but requires comprehensive consideration of the distribution of finances and of the financial systems in order to find a reasonable solution.

2. In the past there was primarily an excess of mainstay construction, while this time it has been a case of too many average processing industries being built under conditions in which key energy and transportation construction has been unable to proceed. The direction of investments has been improper, intensifying past imbalances in the investment structure. The object of adjustment is not the same as in the past, and the difficulties involved are much greater.

3. Each time in the past matters were quickly reflected in the consumer markets. This time, owing to the relatively rapid development of industrial and agricultural production and to the relatively good market supplies, its danger was not fully revealed and it was not easily recognized. But the supplies of the means of production are already very tight and the negotiated prices for building materials and products such as coal and gasoline have already exceeded the limits laid down by the state. Disorderly prices cannot help but influence the regular production management of enterprises. Although the consumer markets are relatively stable, there are latent unstable factors which we absolutely cannot neglect. If the runaway investment situation continues, it will inevitably squeeze light industrial production and the marketplace, and will even affect commodity prices, presenting the danger that the adjustment effects that have not been easily accomplished in the last few years will be lost.

The comrades feel that controlling the scale of construction and keeping it in accord with national capabilities is a policy which must be upheld over the long run and is also a matter of some urgency. Basically speaking, we must take the policy which Comrade Chen Yun raised of having the scale of construction accord with national capabilities to be our guide, measure our strength and proceed, moving ahead in an orderly, step-by-step fashion, bring the ideology of the entire party in line with the principles and policies laid down by the 12th Party Congress and resolutely implement the two step strategic procedures. The major task of the next 4 years is to do the work in preparation for long-term development and is not to force two steps into one step, being overanxious to achieve results and trying to do the work of the next 10 years all at once. In terms of concrete methods, we must continue to strive to strengthen a unified balance between finances and credit and strengthen the comprehensive balance involving finances, credit, foreign exchange and commodities. Bank capital construction loan funds must be handled under conditions in which a unified balance is struck between finances and credit and where there is a margin for action, and the total amount of loan funds must be strictly controlled.

Many representatives feel that controlling the scale of construction, halting blind construction and duplicate construction, requires swallowing some medicine. At present, there are many channels by which funds flow downward. The key to being fluid but orderly lies in having a coordinated process. This requires coming to terms with the situation of daily increasing extrabudgetary funds, reforming the planning and management systems for investment in fixed assets and placing fixed assets investment, both inside and outside the budget, within the state plan. Large and medium construction projects are examined and approved by the State Planning Commission, which carries out scientific demonstrations, does the preproject preparation work and handles matters in strict accordance with capital construction procedures; the total number of small projects is controlled, and, in their case, we must establish reasonable technical and economic policies and carry out planned, focused and orderly technical reforms.

## II. Concerning the Matter of Amassing Funds and Guaranteeing Key Construction

The representatives say that we are carrying out a planned economy whose superiority lies first in the ability to amass funds and carry out key construction. And the problem at present is that the financial resources held by the state government are insufficient--funds are lacking for the key construction that is urgently needed, such as for energy and transportation and for science and education. Because of this, suitably amassing funds is an urgent matter. If in the eighties we cannot move forward with key construction as we did with the 156 projects in the fifties, then we cannot lay a good foundation for economic vitality in the nineties, and it will be difficult to realize the macroscopic goal of quadrupling output by the year 2000.

The comrades feel that at present there is truly a problem with funds being dispersed. But where are funds dispersed? We should do concrete analysis. In terms of localities, in 1980 we implemented a new financial system. There have been advantages to cooking meals individually, but with a) borrowing funds, b) buying state treasury bonds and c) opening of "loopholes", there have basically been very few advantages for the localities. Now, finances of the central government are tight and local finances are not ample either. Funds are dispersed primarily because in initial distribution we give the peasants a bit more, provide a bit more in worker bonuses and allow enterprises to retain a bit more. And, as is reflected in bank credits, savings have increased a bit. There are many reasons for funds being dispersed, some reasonable and some unreasonable.

As for the problem of how to amass funds, the representatives feel that the failure of the state's fiscal income to rise and its excessive drop as a proportion of national income has come about because of many factors, and therefore we must adopt measures covering many aspects, reaching a comprehensive remedy. Furthermore, we must both take stopgap measures and work on a permanent solution, taking both expedient provisional measures and basic long-term measures. Under conditions where funds have already been dispersed, we must adopt some turnaround methods, but doing

so will lead to new contradictions. Because of this, we must give overall consideration on several sides--the state, the enterprises, the workers and the peasants--smoothly and rationally handling relationships: a) reorganizing enterprise retention, appropriately reducing the rate of retention for enterprises; b) further reorganizing price subsidies, including adjusting the price of bonus grain and that of rural grain rations resold to the localities, adjusting procurement base figures, appropriately controlling the scope of price rises and negotiated prices and eliminating certain price subsidies for agricultural means of production; c) adapting to the new forms of rural economic development, opening new sources of financing, such as levying an income tax on specialized households, and adjusting policy on agricultural tax burdens; and d) strictly controlling the issuance of bonuses, not allowing welfare products to be given, etc. The comrades also feel that if we do not come up with ideas covering various aspects, and merely make an issue of the reserve financial strength of localities and enterprises--the amount of which is limited--then we cannot possibly solve our financial difficulties, and, in going too far, we will also damage the enthusiasm of localities and enterprises.

And some comrades feel that we certainly need to adopt measures in various areas with regard to amassing funds, but at this point we must adopt a very cautious attitude toward peasants. In recent years, the rural economy has seen relatively great development and peasant income has increased fairly rapidly, but overall the peasants still are not well off. Because of this, at present in rural areas the main thing is to stabilize the matter of distributional policy. Of course, it is permissible and necessary to levy some taxes on well-to-do prefectures, teams and households.

The comrades in attendance also discussed how to handle the matter of the relationship between amassing funds and expanding local and enterprise financial authority: one view holds that by issuing state treasury certificates and collecting funds for key energy and transportation construction as ways to amass funds, on the one hand, while continuing to expand local and enterprise financial authority--dispersing financial strength--on the other, contradictions will increase and it will be difficult to determine correct distributional policy. Also, it will not be of benefit in amassing funds and might adversely affect enthusiasm at lower levels. Because of this, they advocate adjusting the proportion of funds retained by localities and enterprises in order to alter the situation of funds being overdispersed. A second opinion holds that the contradictions that amassing funds and expanding the financial authority of enterprises intend to solve are different, and they are not mutually interchangable. By expanding and mobilizing enthusiasm, stimulating the economy and improving economic results, the reserve financial strength of localities and enterprises is increased and through issuing state treasury certificates and collecting funds for key energy and transportation construction, the state amasses a little bit, which is a contribution to the state by localities and enterprises. A third opinion holds that we should begin with actual conditions as our point of departure and should

adopt compatible measures with regard to financial strength which has already been dispersed in an effort to reamass some of it. At the same time, we must prevent the occurrence of new dispersals in our distribution of finances. Currently, we must make use of the switch from turning over profits to paying taxes and reduce the unreasonable portion of retained enterprise profits that exceed the amount stipulated by the state, seeing to it that the level of retained enterprise profits stabilizes.

### III. Concerning the Matter of Further Reforming and Perfecting Enterprise Financial Systems and Tax Revenue Systems

The representatives feel that the reform of the profit-distribution system for state-run enterprises which has been underway since 1979 has achieved results. But, in the last few years, we have seen the state giving up profits in order to expand the reserve financial strength of enterprises, resulting in production growth, increased fund retention by enterprises and reduced public revenues. The switch from turning over profits to paying taxes which is now being carried out is much superior to other methods in terms of stabilizing the distributional relationships between the state and enterprises, guaranteeing state fiscal revenues and mobilizing enterprise enthusiasm. We certainly must do well in this reform and straighten out those forms of distribution that do not guarantee increased state income when profits are increased.

The representatives feel that the major contradictions in present public finance work are a) the dispersal of funds and b) poor economic results, and even deteriorating economic results. The reform of the financial systems and of the tax revenue system should be beneficial in solving these two contradictions. In the last few years there have been frequent changes in the financial system. The object, of course, was to strengthen the economic responsibility of enterprises and to mobilize their enthusiasm, but, in some enterprises, there arose the problems of making an issue of changing state and enterprise distributional proportions and of not working hard enough at improving economic results.

Because of losses caused by poor management, enterprises are continuing to increase the financial burden on the state. This condition of responsibility, authority and profits being imbalanced counteracts the role of economic leverage and is of no benefit in mobilizing enterprise enthusiasm for broadening and deepening advances in production on the premise of upholding the interests of the whole. Because of this, economic benefits must be combined with economic responsibility systems and must be integrated with the correct use of various economic levers. If we have economic levers, but are unable to utilize their regulatory function, then the positive role of the system is weakened, and this can lead to contrary results. This requires serious study. At present, the benefits are few, reflecting a lack of concern for cost and benefit comparisons of enterprises. While we are carrying out the switch from turning over profits to paying taxes, we should strengthen cost management, be strict about cost-benefit accounting, overhaul the unreasonable

portions of the fund- and cost-management systems, better combine responsibility, authority and profit, strengthen the economic responsibility, authority and profit, strengthen the economic responsibility of enterprises, see to it that enterprises feel both motivation and pressure and strengthen the consciousness of upholding the interests of the whole.

The representatives feel that the reform of enterprise financial systems and the reform of other economic management systems should be coordinated and move forward together. Allowing full credit on circulating funds is an important element in the reform of enterprise financial systems, but, at the same time, we must reform the commodities management systems. Only then can we develop the role it should play. For a long time now, the means of production have been distributed once a year and goods ordered twice a year, and we have not paid attention to the management function of commodity departments. This is an important reason that goods cannot be handled when delivered and that there is serious overstocking of enterprise commodities. Because of this, merely relying on allowing full credit, using the interest lever to mobilize enterprise enthusiasm for strengthening fund management, is of limited use. We should work hard to reform the circulation system for the means of production, establishing a unified socialist market for means of production, fully fostering the management function of the commodity departments and establishing reasonable conditions for enterprise reserve fund creation.

Some representatives feel that the condition of inequality among enterprises in the retention of profits and the egalitarianism in enterprise award grants are two big obstacles to a further improvement of the systems of enterprise economic responsibility. Among enterprises, this is primarily a problem of prices being unreasonable and, within the enterprises, this is mainly a problem of imperfect management of quotas. The reform of enterprise finance systems and tax revenue systems, determining how to create initial conditions of overall equality for every enterprise and how to adjust the granting of enterprise awards, and truly implementing the principle of distribution according to labor is a problem facing us which requires continued in-depth study and serious solution.

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CSO: 4006/688

FOREIGN TRADE

PRINCIPLE FOR ESTABLISHMENT OF JOINT VENTURES DISCUSSED

Shanghai SHIJIE JINGJI DAOBAO in Chinese 4 July 83 p 3

[Article by Wang Rongshan [3769 2837 1472]: "The Foremost Principle In Joint Chinese Foreign Ventures Should Be Mutual Benefit"]

[Text] Equality and mutual benefit is a basic principle of our nation in developing economic and technical exchange with the outside. Mutual benefit is at the heart of this principle, for without mutual benefit there can be no equality to speak off--equality inevitably demands mutual benefit. In utilizing foreign funds and initiating Chinese and foreign jointly funded enterprises and other cooperative projects, we especially want to emphasize the thorough implementation of this principle.

Profit is the direct motivation of all private investment. Since we allow foreign businessmen to come and invest in China, we should permit them to reap profits in China. This is an overall objective in order for the state to obtain funds and advanced technical equipment and to carry on the four modernizations construction. Looking at it from another angle, this is a common phenomenon in international economic life. At the same time that the United States, Japan and certain Western European countries invest in foreign nations, they also attract foreign funds to their own nations. In recent years, our nation has also taken part in some Chinese-foreign cooperative projects overseas, and this will continue to develop in the future.

Because of this, not allowing foreign businessmen to earn money in cooperative projects is equivalent to negating the principle of equality and mutual benefit, negating the policy of opening to the outside and utilizing foreign funds. But engaging in various joint endeavors with foreign businessmen and allowing foreign businessmen to benefit legally is a concrete and important embodiment of the thorough implementation of the principle of equality and mutual benefit. Contrarily, if only our side can benefit and we do not allow foreign businessmen to make money, then this is a distortion of the policy of our nation opening to the outside.

Foreign businessmen, who take profit as their motivation are most concerned with making money, the more the better; but they also have a lower profit limit, that is the average international profit rate. If a foreign businessman can not obtain profit equal to the average rate of profit, he will not come to China and invest. The enterprise on the Chinese side in the cooperation must, of course, protect the interests of the state and the enterprise itself. Negotiations between the two sides and price bargaining focus on guaranteeing both that the foreign businessman receives a profit that is not less than the average international rate of profit and that he does not obtain exorbitant profits.

In the matter of average rates of profit, there are frequent contradictions that occur with our nation's economy, and these require unique solutions. Within a nation with a free economy, or in international economic life, because of competition and the free movement of capital, there gradually, in the course of change, comes about an average rate of profit that is generally recognized. In our nation, because of various factors such as history and the existing management system, there is no average rate of profit between industries or areas to speak of. And so, the state regulations on various expenditures that the parties should assume with regard to the various joint projects that each trade or industry undertakes with foreign businessmen (such as income taxes, industrial or commercial taxes, customs duties, each item of accumulation, etc.) are also unified (with the exception of economic material). This being so, the following situation will result: when cooperating with foreign businesses, different enterprises which have been enjoying widely divergent rates of profit, on the one hand, must shoulder the same percentage in each item of taxation and in other expenditures in accordance with the unified regulations of the state, and, on the other hand, must provide the foreign business with average profits. The result is that, after taking care of all these expenditures, the enterprise that originally enjoyed large profits will possibly continue to obtain relatively large profits; and the enterprise whose profits were small will possibly find itself with very little surplus, and perhaps even lose money. Assuming that the latter is necessary to national economic development, then we can only reduce our cooperation conditions and guarantee the foreign business' legal profits.

This situation tells us: first, it is unscientific to use the amount of profits as the only measure of the quality of Chinese-foreign cooperative projects; secondly, when cooperating with foreign businesses, different enterprises, owing to different conditions, will want to contend, but not to the point of obtaining exorbitant profits; some will want to yield, being relatively flexible in areas of land-use fees, items of taxation, rapid depreciation of fixed assets, raw material supply, etc. and guaranteeing the partners' legal profits. Under the promise of not allowing foreign business profits to fall below an average level, those that should contend should do so reasonably; those that should yield, should do so with an eye toward economizing; both are in keeping with

the basic, long-term interests of the state. In other words, if those who should contend do not, lowering their standards in an effort to please, then even if they obtain relatively large profits, it is incorrect; if those who should yield do not and prefer to negotiate unsuccessfully, this also is undesirable.

Cooperating with foreign businessmen is an extremely complicated matter. It can never be successfully undertaken by just one enterprise or one department, but rather requires integrated coordination, facing the outside with unity, with everyone joining in concerted efforts when there is the need to contend, and everyone showing mutual understanding when there is the need to yield. Only in this way can we establish an unassailable position in terms of handling our economic relations with the outside. To do this, we must further emancipate our minds, unify our understanding, overcome endless internal wrangling and do a better job of utilizing foreign funds.

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CSO: 4006/706

GENERAL

BRIEFS

NORTHWEST MEETING ENDS--The symposium of five provinces and autonomous regions in northwest China on city works and facilities management concluded in Urumqi on 21 August. This symposium will play an active part in creating a new situation in city works and facilities management in the northwest area. [Text] [HK251415 Urumqi Xingjian Regional Service in Mandarin 1300 GMT 24 Aug 83]

CSO: 4006/782

SYSTEM OF PRICE SUBSIDIES ANALYZED

Hong Kong WEN WEI PO in Chinese 5, 6, 7 Jul 83

[Article by Li Kehua [2621 0344 5478]: "China's Price Subsidies"]

[5 Jul 83 p 7]

[Text] Price subsidy is a major economic policy in China based on the principle of protecting the interests of the producer and consumer. It began in 1953 and continued from the realm of circulation to the realm of production. What is the history and current state of such subsidy? What role does it play in China's economic life? What are the trends and prospects of subsidy? In this article this writer will brief the reader on the basis of the state of research by price specialists in China combined with his own understanding.

What is Price Subsidy

So-called price subsidy is a kind of economic subsidy made by the state to products whose planned price is lower than its value. It is a kind of compensation for exchange of unequal value. For example, a product is sold at a price of 50 yuan but in fact its cost to the average unit in society is 70 yuan. In order not to do harm to the economic interests of enterprises, the state stipulates a minimum of 20 yuan in compensation to the production enterprise of the product. The loss that appears in comparing the planned price and cost is not caused by poor management of the enterprise but is allowed by state policy. Only in the case of loss permitted by state policy can the state give a subsidy for a planned price lower than product value or cost. If the level of planned price of the state is basically rational, the enterprise will be responsible for any loss resulting from cost higher than the price because of its mismanagement.

The scope of subsidy to policy-related loss mainly includes: 1) When the cost and selling price of commercial departments reverse, that is, when cost price of goods is higher than selling price (the state consciously does not increase the selling price in order to protect the interests of the consumers), subsidy is given to commercial departments for the price difference as well as for management and administrative expenses; 2) subsidy for loss created by increase in the cost of raw materials and fuels for enterprises whose factory price of the commodity remains unchanged; 3) subsidy for loss in rent whose level is

lower than the cost; 4) and subsidy for loss resulting from imported goods. All these are price subsidies and apply to enterprises.

#### Staff Worker Enjoys Wage Subsidy

There is another form of subsidy which mainly concerns the consumer. For example, when the wages of staff workers do not increase after the prices of some nonstaple food are increased, the state stipulates that each worker is subsidized with 5 yuan per month. After an increase in grain prices, each worker is subsidized with 2 yuan per month and after the level of communications cost is increased workers are given a communications subsidy. These subsidies are related to increases in prices but they are not known as price subsidies but wage subsidies.

Price subsidies are not entirely equivalent to what people generally call financial subsidy. In substance, financial subsidy includes not only price subsidy but also subsidy for tax exemption and remission, financial subsidies for enterprises with deficits, and so on. Price subsidy is one kind of financial subsidy. However important it is in financial subsidy (according to statistics, the ratio of price subsidy in financial subsidy was 58.65 percent in 1958, 65.38 percent in 1979, 71.53 percent in 1980 and 74.68 percent in 1981), price subsidy cannot be equated to financial subsidy but is merely a part of it.

#### The History and Current State of Price Subsidy

As observed in history, price subsidy began in 1953. At that time, cotton for wadding was the only commodity subsidized. By 1960, the variety of subsidized commodities increased to 5 and further increased to 11 by 1970 and 38 by 1980.

In studying commodity structure, according to one survey, the commodities currently receiving price subsidies include grain, edible vegetable oil, pork, aquatic products, poultry, fresh eggs, beef cattle, mutton sheep, frontier marketed tea, vegetables, cotton, cotton for wadding, silkworm cocoons, filature silk, cattlehide, mao bamboo, southern timber, electric power for farm use, diesel oil for farm use, farm chemicals, plastic films for farm use, farm machinery, soap, washing detergent, thermal flasks, light bulbs, iron pans, student textbooks, student assignment books, newsprint, red scarfs, market coal and small farm tools. There are also five subsidized imported commodities including grain, cotton, granulated sugar, chemical fertilizers and farm chemicals.

According to one survey, price subsidy has the following ratio in three areas: subsidy used in market stabilization, 70 percent; subsidy used in agricultural production, 10 percent; and subsidy used for imported goods, 20 percent. The ratio of price subsidy in state expenditure according to one calculation is as follows: 7.6 percent in 1978, 11.5 percent in 1979, 17.6 percent in 1980, 32 percent (some sources indicate 35 percent) in 1981. In terms of total amounts of price subsidy with the amount of subsidy in 1965 as 100, the amounts of subsidy from 1978 through 1981 will be approximately 300, 560, 800 and 1,200. The subsidy in 1981 was about 12.33 times that in 1965.

From the above analysis, price subsidy in China has the following characteristics: 1) the scope of subsidized commodities expands every year; 2) the amount subsidized increases every year; 3) the proportion of price subsidy in expenditure increases every year; 4) price subsidy plays an increasing evident and important role in the national economy.

Therefore, emphasis on the study of the question of price subsidy, revealing its trends of development, and doing a good job in this work which has major theoretical and practical significance, have become important tasks for China's economic theoreticians and economic workers of practical departments in their search to reform China's economic system.

[6 Jul 83 p 7]

["The Causes and Role of Price Subsidy"]

[Text] The Causes of Price Subsidy

As described above, price subsidy in China began in 1953 and continues today. The main causes are:

First, to stabilize China's market prices. In China, because the prices of some commodities are determined on the basis of historical levels, they have a correspondingly fixed character. Particularly with such commodities as grain and oil that concern the national economy and people's standard of living, they change little once they are determined. The reason is that price increase will bring about wage increase and under present conditions the wage portion cannot be adjusted annually. In actuality, the cost correspondingly increases for some commodities, such as grain and oil, which use chemical fertilizers and farm chemicals in their production. If the peasants are not subsidized, even maintaining simple reproduction (that is, reproduction without a change in scale) will be a problem. Only subsidy can sustain them. Prior to 1961 chemical fertilizers and farm chemicals were not widely used and the production of grain and oil basically involved no loss. After 1961, due to an increase in production cost, the state purchase price of grain and oil increased correspondingly, but the selling price did not (increase in selling price may cause instability of market prices and a series of chain reactions unfavorable to stability and unity), and at that time subsidy was about 2 billion yuan a year. After two large increases in the purchase price of farm byproducts in 1966 and 1979, and up to 1980, these two subsidies totaled 10.8 billion yuan. The goal of increasing the purchase price (which benefits the peasant) without increasing the selling price through the use of subsidy (which benefits the consumer) is to stabilize China's market prices.

Support Production in Small and Medium Enterprises

Second, to support the development of production in small and medium enterprises. In the past, China had implemented the policy of walking "on two legs" by combining indigenous and foreign methods and simultaneously developing large-, medium- and small-scale production. Small-scale production in iron and

steel, chemical fertilizers, coal and cement bloomed and competed. Of course, these small enterprises could not compete with large, modern enterprises; because they had not run their factories for a long period, their technical and technological level was low and their labor productivity was low. On the basis of prices determined by the medium level of cost in society, small enterprises could not survive. But in actuality, as the above-mentioned products of modern enterprises did not satisfy needs, supplementary byproducts of small and medium enterprises became necessary. Therefore, the only solution is to use price subsidy to support small and medium enterprises. According to one survey, prior to 1979 the state-specified factory price of each metric ton of iron was 150 yuan and the respective cost levels were 120 yuan (for large enterprises), 210 yuan (for medium enterprises) and 385 yuan (for small enterprises). The state gave price subsidy and economic support to the portion of cost in excess of the factory price.

#### Avoid Affecting the Overall Solution by a Slight Move in One Part

Third, to move prices toward value. The state's planned price for some mined products such as coal has always been low. What is inherited from the past is not easily changed. Once it is changed, it will increase the cost of fuel to other industrial products and will increase living expenses in the use of coal by residents in towns and cities. As the saying goes, "a slight move in one part may affect the situation as a whole." The factory price of a metric ton of coal cannot be compared to the price of a metric ton of commonly used firewood, which is quite irrational. Hence the price of coal was slightly increased (the factory price of each metric ton was increased 5 yuan). However, this did not solve the problem. Not only was it necessary for the state to subsidize two-thirds of the mines which had a deficit but also to subsidize for the difference between the purchase and selling prices of coal for farm use. This subsidy enables the price of coal to move slightly, but not entirely, toward its value.

Fourth, price subsidy is also used for certain farm industrial products in order to support agricultural production. According to one survey, there are 22 types of farm chemicals. Their factory price has not changed since 1974 but their selling price has continued to drop. According to figures in 1980, the subsidy for the price difference was 85 million yuan. The goal is to prevent factory loss and support agricultural production, promote the popularization and use of farm chemicals and increase the output of crops.

Fifth, to reflect the superiority of socialism, realize the goal of developing production and satisfy needs. The socialist state should create conditions to satisfy people's ever-growing needs in their material and cultural life. Of these, giving satisfaction in the sense of low prices and fine quality is an important aspect. The wage level of staff workers in socialist countries is lower than that in developed countries in general but prices are lower than theirs. The factory price of some commodities (referred to as producer's price by some abroad) have increased but the selling prices (referred to as consumer price by some abroad) do not change. Their difference is subsidized by the state and this reflects the superiority of socialism. People can still benefit

from subsidies and the growing demand for consumption is continually satisfied on the basis of low prices and fine quality.

#### The Positive Role of Price Subsidy

We should observe and study the role of price subsidy by seeking truth from facts. This writer believes that in the main it plays a positive role, but unavoidably it also brings a negative role even though it is secondary.

On the whole, its positive role can be understood as follows:

First, price subsidy is a self-conscious utilization of the law of value in the formation of the price of a product. For historical reasons, the prices of some products are often not easily changed once they are fixed. Logically, China's system of commodity prices must first consider value. Its approximate observed value should be the average cost in society (that is, constant capital C, including depreciation of plant machinery, raw materials, power consumption and other physically transformed labor in the past; variable capital V, which mainly includes wages and bonuses which embody the principle of distribution according to work; and is the total of C + V). Secondly, the market supply and demand of the commodity (when supply is greater than demand, the price can be lower than the value; when supply does not meet the demand, the price can be higher than the value). Thirdly, the related policy formulated by the state on the basis of the demands of social economic development. The current price system for products should not be a problem. What is crucial is that it is not easy to promptly correct and handle the problem of chain reaction from the historically formed price which is divorced from value. Before the overall reform of the price system, other than setting a floating range for prices to cause them to float toward value, adopting price subsidy to move prices toward value is not a bad remedy. By investigation, finding out the distance between price and value of products suitable for sale in the society, and giving economic price subsidies to enterprises will also cause it to tend toward value. It should be described as a self-conscious utilization of the law of prices and is not a matter of allowing the law of prices to freely and blindly play its own role.

Second, by harmonizing the economic benefits of the state, enterprises and staff worker, price subsidy embodies the superiority of the socialist planned economy. Socialist countries have a planned arrangement for the kinds of prices they must regulate, the types of prices that must be subsidized and the amounts of subsidy. It is not true that economic subsidy is given to all commodities. Regardless of the amount of loss by an enterprise, commodities not listed in the scope of subsidy should be resolved by improving the administration and management of enterprises, which should be responsible for everything. What is very important here is the principle centering around a planned economy. Price subsidy should be made a part of planned arrangement.

[7 Jul 83 p 10]

["The Trends and Prospects of Price Subsidy"]

#### [Text] Price Subsidy Promotes Cotton Production

Price subsidy has a role to play in promoting industrial and agricultural production. The principle is simple. Because of historical reasons the prices of some products are lower than their value and if a subsidy measure is not adopted their production will be unable to continue. After the adoption of subsidy, production units will be able to make profits and this promotes the development of production. For example, Shandong is a major cotton-producing region. Because the state purchase price of cotton was kept low in the past, cotton output fluctuated between 3 and 4 million dan (the highest record was about 5.5 million dan). Since the 3rd Plenary Session of the 11th Party Central Committee the purchase price of cotton has been increased and a price subsidy has been adopted so that cotton production has increased year after year. According to one calculation, in terms of seeded area of cotton, there were 9.4 million mu in 1978 but 14 million mu in 1981, an increase of almost half the seeded area. In terms of output per unit area, in 1978 the unit output was 33 jin and in 1981 it reached 99 jin, an increase of 3 times. Moreover, total output of cotton was 3.08 million dan in 1978 and increased to about 14 million dan in 1981, an increase of more than 4 and 1/2 times. This sufficiently explains that price subsidy is beneficial to promoting the development of production.

#### Subsidy Increases Peasant Income

Fourth, at the same time it promotes production, price subsidy increases peasant income and raises the living standard of commune members. Take Gaotang County in Shandong for instance. In the past it "made grain as the key link" and cotton was not allowed to grow in the cotton-producing region. As a result, from what was historically known as "golden Gaotang" of a wealthy cotton-producing county it became the "poor Gaotang" of "three reliances" (reliance on unified purchase for grain, reliance on relief for spending and reliance on loans for production). Since 1979 the state has increased the price of cotton and promoted the development of cotton production thereby increasing the income of peasants. According to one survey, in 1978 the total distribution to commune members of that county was 16.6 million yuan with an average of 45.20 yuan per person, and in 1981 total distribution was 8,571 [sic: probably 85.71 million] yuan with the average distribution per person increased to 228 yuan. Comparing 1981 and 1978, the total distribution for commune members had increased by 5.16 times, and the average distribution income per person had increased by 5.04 times.

#### Regulation of National Income Distribution

Fifth, price subsidy also plays a role in regulating the distribution of national income and its redistribution. The price of major products in socialist countries are generally fixed by the state. Because prices have not been regulated for many years, the prices of some products are higher than

their value while some others are lower. If prices are not regulated by price subsidy and price floating, exchange of products priced lower than their value with those priced higher does not constitute an exchange of equal values even if it is done through currency. The result of such exchange of unequal values is that the former has exploited the latter in part of the national income and is very irrational. By adopting price subsidy measures, products priced under value and subsidized will have an exchange of equal values with other products which conform to their value. When national income created by enterprises acquire constancy, the measure of contribution enterprises make to the state will be practical and realistic.

#### The Negative Role of Price Subsidy

There are two sides to everything. Even though price subsidy primarily plays a positive role, its secondary and negative role should not be ignored.

The writer believes that price subsidy plays the following role:

1. Excessively large and extensive expenditure on price subsidy will overburden state finance. Price subsidy touches on the ratio between the state's accumulation fund and consumption fund. When subsidy is excessively high its proportion in the state, expenditure will be too large and will cause the accumulation fund, or capital fund, to decrease but not increase.

According to one calculation, the proportion of price subsidy China uses for domestic commodities and imported means of consumption in the total price subsidy was 71.85 percent in 1978, 85 percent in 1979, 87.28 percent in 1980 and 87.47 percent in 1981. With certain prerequisites for state revenue established, the increase in proportion of price subsidy in expenditure will inevitably cause the proportion of accumulative expenditure to decrease. It will further affect investment on agriculture, energy resources, communications, light and textile industries as well as funds for scientific research. From this point of view, unrestricted expansion of subsidy is undesirable.

2. Although price subsidy plays a positive role in moving price toward value, it also plays a negative role in improving management and administration of enterprises. Since the state will subsidize all commodities eligible for subsidy, the greater is cost than price, the greater will be the subsidy. There will be no subsidy for cost which is lower than price and if cost is slightly higher than price there will be less subsidy. In this way, some enterprises are not particular about economic benefits but fake increases in cost, which affects both state expenditure and the initiative to improve management of enterprises.

3. Price subsidy can also cause commune brigades to compete for high subsidies and reduce the planned figures in state purchase. For example, according to recorded years of high output, 100 million jin of a certain farm product can be produced and in ordinary years the average annual output may reach 80 million jin. But due to subsidy, some products which surpass the basic figure of state purchases fixed by the plan can receive subsidy of a higher price for the overage. Some commune brigades may hold a portion back for themselves and when

they sign the contracts for purchase and turning over they can fix the basic figure of state planned purchase at 70 million jin or less while the actual output may have been 140 million. This will create an increase in state expenditure by the higher price for purchase of the overage. This is not favorable to keeping pace in carrying out overall reform of the economic system.

#### Continual Expansion of Price Subsidy Is Undesirable

Summarizing the above, the superiority of price subsidy as an economic policy to regulate the interests of producers and consumers is evident, but it has defects. Therefore, in the view of this writer, China cannot be without price subsidy, however, it must not be expanded without limit, but should be restricted under planned guidance. In terms of its trends and prospects, it appears that there is a need for reducing price subsidy.

The reasons are as follows:

1. From the point of view of borrowing experience from abroad, any price subsidy above 40 percent of expenditure will lead to ratio imbalance among production departments and supply of market commodities will not meet demand. In China, the proportion of price subsidy being one-third of expenditure is a little high. Without guidance and restriction, its tendency is to continue to expand. It seems appropriate to create conditions to restrict it below 20 percent.
2. The goals of price subsidy are, first, to cause prices to move toward value. The problem can be solved under the prerequisites of reforming the price system, conforming stable prices to value and regulating price fluctuation of different commodities so that the overall structure will remain stable. Second, to prevent lowering the living standard of the consumer. Through reform of the wage system, part of the expenditure of price subsidy can be used to regulate wages (their balance with prices). Third, to promote coordinated development of production. This problem can be solved entirely by overall reform of the price system.
3. All trades and professions are undergoing reform and reform of price subsidy should be no exception. Reform of price subsidy can be carried out with tax revenue reform. Some can even substitute for one another. For commodities that should be subsidized, if for various reasons it is not suitable to change their prices, their tax rates can be reduced. Because tax revenue is included in the price, when the tax is reduced the profit included in the price will naturally increase and the state of loss will correspondingly be changed.
4. The key question is still prices. Prices must be rational and must conform to the demand of value. Price subsidy can be wholly reformed away. Because the question of prices concerns different aspects, only by weighing the advantages and disadvantages and by overall reform of prices can the problem of subsidy be solved.

Historical experience proves that in the early 1960's price subsidy in China was equivalent to 15 percent of revenue. At that time it had little pressure on state finance. But it has currently reached about one-third of revenue, which shows that the pressure on finance is excessive. This writer believes that only by considering problems in the overall reform of the national economy and making appropriate arrangements comprehensively and rationally, the problem of price subsidy overburdening finance can be solved and it can be solved rationally.

9586  
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HONG KONG MEDIA ON CHINA

POSITIVE ATTITUDE TOWARD FOREIGN CAPITAL USE URGED

Hong Kong WEN WEI PO in Chinese 17 May 83 p 2

[Editorial: "We Must Take a Positive Attitude Toward the Utilization of Foreign Capital"]

[Text] A national working conference on the utilization of foreign capital is just being held in Beijing. In her address to the conference, Chen Muhua [7115 -- 5478] called for the acceleration and widening of our utilization of foreign capital. Around the time of the conference, China, in accordance with the "Law Concerning Enterprises Funded and Managed Jointly by China and Foreign Countries," has issued a number of regulations for concrete implementation, giving more favorable terms to foreign investors in taxes, such as business income tax, deferred income tax, business consolidated tax, real estate tax and individual income tax, etc.

It was revealed at the conference that during the 4 years from 1979 to the end of last year a total of \$12.6 billion of foreign capital was utilized, \$10.8 billion as loans and \$1.7 billion as direct investment.

This is not a small figure. The policy of attracting foreign capital has been put forward for only a few years and it has already achieved such results, which are quite considerable. However, it is still far from the figure required by the Sixth 5-Year Plan, which calls for, during the period of the Sixth 5-Year Plan, about \$20 billion of foreign capital, with \$5 billion to be used on the technological transformation of our old enterprises. Foreign funds for capital construction make up about 10.1 percent of our total funds for capital construction in the Sixth 5-Year Plan. Now the Sixth 5-Year Plan has entered its third year, how much foreign capital has been brought in? Not much, as one can see from the above-mentioned figure. Currently the world economy is recovering; the market is full of various kinds of capital, eager to have a go. On the other hand, China's Sixth 5-Year Plan is in its mid-term and cannot be delayed. If we do not now actively bring in foreign capital that is seeking investment, we might miss the opportunity, thus make the budgeted foreign capital utilization fall behind. The analysis of both the internal and international situation shows that now is the important opportunity.

China grants more favorable terms to foreign investments. Both the figure of foreign capital to be attracted as put forward in the Sixth 5-Year Plan and the

working conference on the utilization of foreign capital have indicated the determination and attitude of the central authorities. For example, Zhao Ziyang said, when he recently received leading businessmen from five foreign oil companies, that our open door policy is a definite and long-term state policy; it will not change easily. However, as the editorial of the 14 May RENMIN RIBAO indicated, "some comrades do not quite understand the meaning of the utilization of foreign capital to manage enterprises jointly. They even have doubts." This means that perhaps there still exists ideological resistance, which will be a serious obstacle to attracting foreign capital.

It is understandable that our thinking cannot keep abreast of the needs of the situation. Over a long period of time, the utilization of foreign capital was considered a social anomaly. It was taken as an honor to have no foreign debts. This kind of advocacy has imprisoned the minds of people for a long time. This is obviously a serious misunderstanding. Foreign capital is brought in for our utilization and is to be used in those industries, for instance, the present energy and communications industries, which development is most urgently needed in China's construction. It plays a positive role in comprehensively balancing our economy and developing our economy in proportion. China has a large population, and the unemployment problem cannot yet be solved immediately and thoroughly. Using foreign capital to set up various enterprises will provide us more employment opportunities. The economic problem of China is not that supply exceeds demand as in the West, but that demand exceeds supply. By using foreign funds to set up enterprises, we can increase production, and part of the products can be sold to the domestic market, which can relax the tense situation in our market and improve the people's material life. It has positive significance. We have a strong socialist economy, and we will supervise and control the foreign capital according to the gradually perfected economic laws and regulations. So why should we be afraid?

We are here neither promoting unrestricted, unplanned utilization of foreign funds, nor advocating the more the better, but we must, in accordance with our country's current economic needs and ideological understanding, clear our mind of doubts about bringing in foreign funds and open up a new prospect in our full utilization of foreign funds.

12200  
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UTILIZATION OF FOREIGN CAPITAL IN ZHEJIANG PROVINCE REPORTED

Hong Kong WEN WEI PO in Chinese 10 May 83 p 9

[Article: "China Gives More Favorable Terms to Foreign Capital Invested Enterprises: Products of Joint Enterprises Can be Sold at Home; Tax Reduction and Exemption Extended--Zhejiang International Funds Corp Celebrated Its Fourth Anniversary; Chairman of the Board and General Manager Tang Yuanbing Spoke about the Utilization of Foreign Capital"]

[Text] The Chinese Government will adopt an even more open policy in many areas by reducing appropriately the cost of joint enterprises, helping the investors have their capital returned ahead of time, and helping to sell products of jointly managed enterprises, etc., thus to encourage overseas investors to come to invest in China, set up jointly invested enterprises. China's domestic market will open gradually to these joint enterprises; also these jointly invested and managed enterprises will gain more independence in their production, purchase, sales, import and export trade and labor wage system. More favorable terms will be extended to them. Tang Yuanbing [3282 0337 3521], chairman of the board and general manager of Zhejiang International Funds Corp, revealed the above-mentioned in his public speech at the fourth anniversary meeting of the corporation.

Tang Yuanbing said that as long as it is in accordance with the interests of the Chinese and foreign parties of the joint enterprises, the Chinese side will not insist on having the products of these enterprises all sold abroad. Since each year China imports various products which total a considerable amount of money, precedence can naturally be given to the purchase of products of those joint enterprises over some of the imported goods. As for the ratio of external and domestic sales, the two investing parties will negotiate based on the concrete situation of each party's payment for the products of that enterprise. If products are badly in need at home, the ratio of export sale can be lower.

Furthermore, Renminbi [RMB] obtained by the jointly managed enterprises from sales on the domestic market can be used to purchase material resources on the domestic market, at the current domestic prices (with the exception of a few goods and materials).

Chairman Tang also indicated that our government will permit and guarantee the Chinese-foreign jointly invested and managed enterprises to enjoy their full

independence, and with further issue clear stipulations to guarantee their full independence in production management and planning, purchasing, sales, import and export trade, property management and labor wage system.

In tax revenue, preferential treatment has been further extended. Chairman Tang said that the present law on domestic industrial and commercial tax will be applied to these joint enterprises. All import machinery, equipment and other necessary materials specified by contract as investment, and any raw materials, basic and spare parts and packaging materials imported to increase the production of products for sales abroad will be exempt from import tariff and industrial and commercial tax. In addition, the time limit for tax reduction and exemption for the joint enterprises can be appropriately extended.

In sum, China, in handling and developing its foreign-trade relations, will implement the principle of equality and mutual benefit, ensure both the Chinese and foreign parties' just rights, interests and legitimate profits, and also make it possible for overseas investors to have good prospects of gains.

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UTILIZATION OF FOREIGN CAPITAL IN FUJIAN TO EXPAND

Hong Kong WEN WEI PO in Chinese 6 July 83 p 8

[Report: "Vice Chairman of Fujian Branch of Trade Promotion Association Says--Fujian Vigorously Introduces Foreign Capital, Plans to Construct and Expand 22 Projects in Industrial Enterprises"]

[Text] In order to promote the development of foreign economic trade, concerned departments have drawn up plans to introduce technical equipment within a short time, transform 180 projects of enterprises and continue to introduce 200 to 300 projects each year thereafter.

Vice Chairman Ye Jin [5509 6855] of the Fujian Branch of the Chinese Association for the Promotion of International Trade indicated that one aspect of the emphasis in Fujian's present foreign economic work is to utilize overseas Chinese capital and foreign capital to introduce advanced technology and equipment and transform existing industrial enterprises. Another aspect is to develop production energetically, improve product quality, strive to expand export, and at the same time utilize and develop resources in our province and build a group of new enterprises with planning.

Recently, Fujian has planned to use 10 or more years to transform all 2,600 or so state-operated industrial enterprises and simultaneously utilize foreign capital to build or expand 22 industrial enterprises. It has planned to transform 180 projects of old enterprises this year.

Ye Jin indicated that foreign economic trade has developed very quickly since 1979 when Fujian carried out the special policy and flexible measures. In recent years, Fujian has operated 14 jointly funded enterprises with firms from Hong Kong, Macao and abroad, 12 of which are with businessmen from Hong Kong and Macao with a total investment of \$28 million and the total investment of traveling traders is \$15.37 million. Jointly funded enterprises include electronics, furniture and plastics. There are 35 projects under joint Chinese and foreign management with an investment of \$20.75 million from traveling traders, including knitted clothing, photography, communications and transportation and training of qualified personnel. There are 109 projects which adopt compensatory trade and import equipment and materials at a value of \$18.96 million. One project is solely managed by foreign trades which has an investment of \$4.5 million. There is one lease-trade project with import

facilities at \$800,000, and there are 4,015 projects for processing and assembly with imported materials which has a business volume of \$156 million and 107 projects for the introduction of technology and import of equipment at a value of \$72.85 million.

Ye Jin indicated that Fujian has planned to spend about 10 years to do its best to transform existing enterprises and lay a good foundation for the future with the hope of reaching the scientific and technological levels of developed countries in the 1980's by the year 1990. It will then spend 5 or 6 more years to digest them and will be able to gradually catch up with the levels.

Besides introducing foreign capital, the state has also vigorously invested in Fujian's backbone industries such as hydropower stations in energy resources and piers and railroads in communications and transportation.

Ye Jin indicated that Hong Kong is Fujian's greatest trade partner. Last year, export commodities were sold in 119 countries and regions of the world. Hong Kong was in first place with 35 percent, Japan with 13 percent and Europe with 20 percent. Obviously the proportion of the Asian region is large.

The state has recently announced that it will further relax its policy and give even more preferences to investors. Fujian gives particular preferential treatment to capital from overseas Chinese, capital from Hong Kong and Macao and Taiwan. For instance, income tax is forgiven for 2 years, and is halved for the next 3 and 1/2 years. These conditions can be listed clearly in contracts.

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PROSPECTS OF CHINA'S COORDINATED, ECONOMIC REGIONS DISCUSSED

Hong Kong WEN WEI PO in Chinese 12 July 83 p 2

[Editorial: "The Prospects of China's Coordinated and Economic Regions Are Bright"]

[Text] The development of China's economy continues to go beyond original provincial and regional boundaries, forming new economic cooperation and building new economic regions.

Recent reports include the setting up of the economically and technically coordinated region of Fujian, Jianxi and Hunan, which join forces to build railroads, open up communications and draw support from advantageous conditions of the Fujian Special Economic Zone to organize foreign trade. There is also the economic cooperation and mutual support between Beijing and Inner Mongolia, with the scope of cooperation including economic, technical, material, qualified personnel, cultural, educational, and sanitation aspects, 52 projects having been agreed upon in the first phase.

Coordinated regions and economic regions differ slightly. They only stress certain support and cooperation in certain economic realms and they still do not have overall programs, nor do they organize complete economic networks or form a unified economy. The trend is inevitably from external cooperation to internal integration.

The types of economic regions that have been set up and are under consideration are diverse.

Running in the forefront is the Changjiang Sanjiaozhou economic region which is supported by Shanghai and which includes the two provinces of Jiangsu and Chejiang. It has the most prosperous and largest city in the nation, with small and medium cities spread everywhere and a vast and fertile countryside. Driven by the economy of Shanghai, it will popularize and increase technical competence, develop the path of specialized cooperation and form the most advanced, comprehensive economic region in the entire country.

Shanxi is China's coal capital. Another economic region is formed with Shanxi as the center and includes western Inner Mongolia, Shanxi and Ningxia. It uses the development of coal reserves as the central link in developing its economy

and utilizes coal byproducts to build heavy and chemical industry, turning itself into China's most important economic region of coal, heavy and chemical industry.

Exploitation of marine resources is another task in China's economic development. Experts have proposed to set up the Bo Hai economic region, concentrate human and material resources, give priority to exploit China's offshore resources and extract petroleum, crude salt, building materials, drinking water and fresh water from the ocean.

Other economic regions under consideration include the southwest economic region with Chongqing as the center, with a plan to build Chongqing into China's most populous city; the central China economic region with Wuhan as the center; the northeast economic region with Shenyang as the center; the economic region with Guangzhou as the center which involves Hong Kong and Macao; and the economic region with Beijing and Tianjin as the centers.

Economic conditions and levels of development differ from region to region. An important task in planned economy is how to give play to a region's own advantages and potentials. The coal base with Shanxi as the center, marine development centering in Bo Hai and the comprehensive economic region which is supported by Shanghai all fully embody the spirit of selecting the best in development. Guided by this spirit, China will form economic regions that will have their own special features. All regions will have the same basic industries but different specializations and divisions of work, thereby supporting and supplementing each other and comprehensively forming a complete and independent national economy in the country as a whole. Duplicated production arising from arbitrary division will be overcome and obstructions in economic and technical interchange will be removed. Spurred on by key cities, exploitation of natural resources and economic development in China will be accelerated.

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REFORM OF SUPPLY, MARKETING COOPERATIVES YIELDS RESULTS

Hong Kong WEN WEI PO in Chinese 8 July 83 p 3

[Article by Zhou Wenqiang [0719 2429 1730]: "The Contract Responsibility System of Supply and Marketing Cooperatives"]

[Text] The supply and marketing cooperative, a key to rural commercial reform in Guangdong, has increased its pace in reviving the organizational mass character at the grassroots level, the democratic character in administration and the flexibility in management.

On June 22, this reporter visited the finance office of Guangzhou's suburban district and according to its deputy chief, Ceng Xianchen [2582 2009 5256], and cadre Huang Jinqiao [7806 6855 2890], after certain experience is gathered from some experimental communes in the reform of the supply and marketing cooperatives, cooperatives will open and spread comprehensively. Experimental units show that reformed cooperatives are full of vitality and have turned deficits into profits.

There are 14 grassroots supply and marketing cooperatives in Guangzhou's suburban district which are responsible for the supply and marketing of the means of production and subsistence. In the district as a whole there are 647 retail departments, of which 151 have undergone reform. The reform implements the provincial work conference's management responsibility system which centers around the contract. The method is to draw contracts externally and conduct joint management internally in order to vitalize the urban and rural economy, promote production and improve living standards. The experimental communes show changes before and after the implementation of the contract responsibility system, which benefits the state, collective and individual.

Shilong Supply and Marketing Cooperative is an experimental cooperative under which are 4 eating houses, 9 nonstaple sales departments, 3 farm byproducts purchase stations, 6 means of production stores, 13 department stores and 9 commission stores with a total of 328 staff workers, including state workers, the people who lead the collective, temporary workers, student workers and commission agents.

Shilong Supply and Marketing Cooperative carried out the responsibility system first in catering. The Shilong and Shenshan restaurants have always had

deficits in the past. In 1982, the Shilong restaurant had a business volume of 100,000 yuan. At the end of 1982, the loss was 19,146 yuan and even in the first month of 1983 it had a loss of 1,000 yuan. Since February, after it carried out the contract responsibility system, all 14 staff workers changed their practice of eating out of the big pot. Because the performance of business is directly related to distribution, they were able to make up deficits and increase surpluses and ultimately made a profit of almost 300 yuan. The Xinjiao Commune which started the contract responsibility system earlier has organized its sources of goods and expanded marketing. In 1982 it had a pure profit of 190,000 yuan.

The reform of supply and marketing cooperatives has revived the tradition of making cooperative members shareholders. In the past, each share was 2.10 yuan, and money paid for shares expanded on the basis of settling the shares and dividing the dividends. Each share is 5 yuan and there is no limit on the number of shares. The dividend is divided at the end of the year. With the exception of the state-stipulated cotton and timber, supply and marketing cooperatives can manage any other industrial and commercial commodities. They can also manage jointly with other units, jointly manage for key households and specialized households and supply seeds, seedlings, technical guidance and so forth. For example, in joint management with specialized households in growing bananas, the peasants receive 50 percent of the products which are sold to the cooperatives at the state-purchase list price. The supply and marketing cooperatives profit from the purchase and the peasants can freely sell 50 percent of the products or sell them to the cooperatives at the market floating price. The main goal is to develop production and vitalize the urban and rural economy.

After their reform, supply and marketing cooperatives no longer hand over profits to the state but pay tax instead. The floating wage system is used for wages and profits are handled by expansion and reproduction based on turning over to the state, retained profits and distribution among staff workers.

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